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Why SBA Loans Make Sense... and Dollars for Lenders

SBA
U.S. Small Business Administration
Office of Finance and Investment

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SBA's Guaranty Lending Program; Benefits to Participating Lenders

SBA's guaranty lending program offers a number of distinct advantages to the lender. This pamphlet describes the program and its advantages.

1. The Program at a Glance

Q. How does the program work?

A. Lenders that are approved by the SBA can make guaranteed loans to small businesses. About 98% of the firms in the country meet SBA's size standards for small business. SBA offers full faith and credit guarantees of 90% on loans up to $155,000 and 85% on larger loans, to a maximum guaranty amount of $750,000. Maturity can be as long as 25 years. Rates can range up to 2.75% over New York prime, depending upon the maturity. Loan proceeds can be used for real estate, furniture and fixtures,machinery and equipment, working capital and, to a limited degree, to refinance existing debt.

To improve cost effectiveness, certain lenders are now permitted to retain one half of the SBA guaranty fee (2% of the guaranteed portion of the loan) on guaranteed loans of $50,000 or less.

Lenders have a choice of three types of SBA processing. In the regular program the lender submits a complete application package to its local SBA office. SBA analyzes the application and gives the lender its decision. Turnaround time is usually two weeks or less.

In the Certified Lenders Program (CLP) SBA places greater reliance upon its participant lenders. SBA endeavors to review and process the loan package within three days or less.

Participants in the Preferred Lenders Program (PLP) are selected from the best performing lenders in CLP. Each PLP lender is given full authority and responsibility for handling almost all aspects of the transaction. This includes making the credit decision, closing the loan, servicing, administration, and (if necessary) liquidation. The maximum guaranty on PLP loans is 80%.

2. Guaranteed Portions of SBA Loans May Be Sold to Investors

Q. What are the advantages of selling guaranteed Portions?

The principal benefits are:

A. *Immediate Liquidity.* Many lenders are concerned about having large sums tied up in term obligations. Commercial bank lending to small businesses has traditionally been on terms of a year or less. A lender is able to sell the guaranteed portion of SBA loans, thereby gaining immediate liquidity and protecting against interest rate risk.

The increased liquidity may be used to make additional loans. This provides a lender with a means to increase market share and to sell other services.

Increased Earnings. Selling increases the yield to the lender. Lenders may earn servicing fees. Typical fees are from 1-2% on the guaranteed portion. Variable rate loans usually sell at a premium. Last year the average price received by lenders was 104.2% of par. The lender may earn interest on float, as a borrower's payment may be held by the lender until the end of the month in which it is due. (At the end of the month, the pro rata portion is sent to the secondary market fiscal and transfer agent.) And, borrower cash balances may be kept on deposit. All of this adds up to make SBA lending a profit center at banks, large and small, all across the country.

Long-Term Fixed Rate Lending. Many small businesses want and need long-term fixed rate loans. For a variety of reasons, most banks are not ordinarily in a position to make them. But the secondary market provides a way. SBA allows lenders to make loans with a fixed rate guaranteed portion and a variable rate unguaranteed portion. If the lender is concerned about keeping a long-term fixed rate loan on its books, it can be sold in the secondary market. This provides the borrower with a reasonably stable payment while protecting the lender from interest rate risk.

3. Computing Liquidity and Loan to Deposit Ratios

Q. What consideration will be given with respect to computing liquidity and loan to deposit ratios?

A. Because the guaranteed portion of SBA loans is a government obligation, examining authorities can eliminate them from the total of the bank's loan portfolio in computing the loan-to-deposit ratio for the purpose of determining its liquidity, or computing the bank's ratio of loans to capital, surplus, and undivided profits for the purpose of determining the adequacy of its capital structure.

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4. Loans In Excess of Statutory or Regulatory Limits Permitted

Q. How are SBA guaranteed loans affected by statutory or regulatory limits?

A. As a general rule, national banks and state banks are prohibited from making loans to one borrower in excess of 10% of their capital and surplus. Because the guaranteed portion of an SBA loan is a government obligation, regulatory authorities permit larger loans to be made in which the government covers the amount in excess of the bank's lending limit. As an example, if a bank's lending limit is $300,000, the maximum use of the $750,000 SBA guaranty can increase the bank's limit to $1,050,000.

5. Collateral for Treasury Tax and Loan Accounts, Public Funds, and Federal Reserve Bank Advances

Q.How can SBA loans help our bank meet reserve requirements?

A. In its tax collection system, the Treasury Department permits employers to pay their withholding taxes by deposit to a special account at local banks, with advice to the Treasury Department. This account is sometimes used for setting purchases of government bonds. Periodically, the bank is required to send the balance of the account to the Treasury.

In the meantime, the bank is required to pledge certain eligible assets (usually U.S. Government and U.S. Agency bonds) as collateral to the deposit in the event of failure by the bank to pay the balance as ordered. Therefore, one asset that is eligible for pledging is the guaranteed portion of SBA loans. The securities portion of the bank's portfolio may be reserved for other uses.

Most public funds require deposit institutions to pledge collateral on funds deposited by states, cities, counties, school districts, water, sewer and park districts, etc. The reason is to protect public funds in the event of the depository institution's inability to pay out the deposit when demanded. This requirement can be as high as 110% of deposits. Usually the required collateral is marketable securities.

Once again, where SBA guaranties are classified as eligible, the deposit institution's marketable securities portfolio is free for other use.

Member banks may borrow from the Federal Reserve with certain assets as collateral. SBA guaranteed loans qualify as collateral to the extent of the guaranty.

6. Develop New Products

Q. How can SBA help our bank develop and market new loan products?

A. SBA offers an Export Revolving Line of Credit Program to aid small exporters. ERLC loans may be used to finance the labor and materials needed to manufacture or purchase goods and services for sale overseas,to develop a foreign market, for foreign business travel and for participation in trade shows. Proceeds may also be used to provide the working capital to fulfill an export sales contract. Another export-related product is SBA's new $1 million International Trade Loan Program for small businesses in industries engaged in or adversely affected by international trade. It is designed to help them improve their competitive position.

SBA and Lender Partnership

If you are interested in further developing your participation in SBA's loan guaranty program, contact your nearest SBA office. (There is at least one SBA office in every state, the District of Columbia, and Puerto Rico.) A list of offices with telephone numbers and addresses is attached.

Discuss your interest with the District Director or the Assistant District Director for Finance and investment. Get on their mailing lists.

Consider cohosting training sessions or business development workshops. These can be tailored for lenders, small businesses, or community groups. SBA also provides group and individual assistance for business development, federal contract procurement, international trade, and other activities.

Lenders' request for SBA Information

Please detach and mail this form to your local SBA office. ***Attention:*** *Financing Division*

☐ We have received your recent packet of items relating to the SBA's business loan guaranty programs and we are interested in furthering our participation with you.

☐ Please send us additional copies of this brochure: ***Why SBA Loans Make Sense... And Dollars for Lenders.***

☐ Please send additional publications, specified below.

- ☐ Lending the SBA Way
- ☐ Business Loans from the SBA
- ☐ Your Business and the SBA
- ☐ Fact Sheet #38 (CLP and PLP)
- ☐ Other publications (list title, if known, or the subject area)

Please send the requested Information to:

Name of institution:

Full address:

City, State and Zip:

Attention:

Name:

Title:

Phone

☐ This institution presently is an approved participant with the SBA, i.e., we have an executed and current contract (SBA Form 750, "Loan Guaranty Agreement (Deferred Participation)),"
dated / /).

If not, do you want to be approved by SBA and execute the participation contract? ☐ Yes ☐ No
If you do, who should we contact, and what is the best time to do so?

Name:

Title:

Phone:

Best Time:

Please add us to your local office's mailing list for ongoing communications, training and conference opportunities, etc.

Comments/Suggestions/Areas of Particular Interest:

Thank you!

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SBA FIELD OFFICES

REG.	TYPE	CITY	ST	ZIP	ADDRESS		PUBLIC PHONE
01	RO	BOSTON	MA	02110	60 BATTERY MARCH STREET	10TH FLOOR	(617) 451-2030
01	DO	AUGUSTA	ME	04330	40 WESTERN AVENUE	ROOM 512	(207) 622-8378
01	DO	BOSTON	MA	02222-1093	10 CAUSEWAY STREET	ROOM 265	(617) 565-5590
01	DO	CONCORD	NH	03301-1257	55 PLEASANT STREET	ROOM 210	(603) 225-1400
01	DO	HARTFORD	CT	06106	330 MAIN STREET	2ND FLOOR	(203) 240-4700
01	DO	MONTPELIER	VT	05602	87 STATE STREET	ROOM 205	(802) 828-4474
01	DO	PROVIDENCE	RI	02903	380 WESTMINSTER MALL	5TH FLOOR	(401) 528-4586
01	BO	SPRINGFIELD	MA	01103	1550 MAIN STREET	ROOM 212	(413) 785-0268
02	RO	NEW YORK	NY	10278	26 FEDERAL PLAZA	ROOM 31-108	(212) 264-7772
02	DO	HATO REY	PR	00918	CARLOS CHARDON AVE.	ROOM 691	(809) 753-4002
02	DO	NEW YORK	NY	10278	26 FEDERAL PLAZA	ROOM 3100	(212) 264-4355
02	DO	NEWARK	NJ	07102	60 PARK PLACE	4TH FLOOR	(201) 645-2434
02	DO	SYRACUSE	NY	13260	100 S. CLINTON STREET	ROOM 1071	(315) 423-5383
02	BO	BUFFALO	NY	14202	111 W. HURON STREET	ROOM 1311	(716) 846-4301
02	BO	ELMIRA	NY	14901	333 E. WATER STREET	4TH FLOOR	(607) 734-8130
02	BO	MELVILLE	NY	11747	35 PINELAWN ROAD	ROOM 102E	(516) 454-0750
03	RO	KING OF PRUSSIA	PA	19406	475 ALLENDALE ROAD	SUITE 201	(215) 962-3750
03	DO	BALTIMORE	MD	21202	10 N. CALVERT STREET	3RD FLOOR	(301) 962-4392
03	DO	CLARKSBURG	WV	26301	168 W. MAIN STREET	5TH FLOOR	(304) 623-5631
03	DO	KING OF PRUSSIA	PA	19406	475 ALLENDALE ROAD	SUITE 201	(215) 962-3846
03	DO	PITTSBURGH	PA	15222	960 PENN AVENUE	5TH FLOOR	(412) 644-2780
03	DO	RICHMOND	VA	23240	400 N. 8TH STREET	ROOM 3015	(804) 771-2617
03	DO	WASHINGTON	DC	20036	1111 18TH STREET, NW	6TH FLOOR	(202) 634-4950
03	BO	CHARLESTON	WV	25301	550 EAGAN STREET	SUITE 309	(304) 347-5220
03	BO	HARRISBURG	PA	17101	100 CHESTNUT STREET	SUITE 309	(717) 782-3840
03	BO	WILKES-BARRE	PA	18701	20 N PENNSYLVANIA AVE.	ROOM 2327	(717) 826-6497
03	BO	WILMINGTON	DE	19801	920 KING STREET	ROOM 412	(302) 573-6294
04	RO	ATLANTA	GA	30367-8102	1375 PEACHTREE ST., NE	5TH FLOOR	(404) 347-2797
04	DO	ATLANTA	GA	30309	1720 PEACHTREE RD, NW	6TH FLOOR	(404) 347-2441
04	DO	BIRMINGHAM	AL	35203-2398	2121 8TH AVE. N.	SUITE 200	(205) 731-1344
04	DO	CHARLOTTE	NC	28202	222 S. CHURCH STREET	ROOM 300	(704) 371-6563
04	DO	COLUMBIA	SC	29202	1835 ASSEMBLY STREET	ROOM 358	(803) 765-5376
04	DO	CORAL GABLES	FL	33146	1320 S. DIXIE HIGHWAY	SUITE 501	(305) 536-5521
04	DO	JACKSON	MS	39269-0396	100 W. CAPITOL STREET	SUITE 322	(601) 965-4378
04	DO	JACKSONVILLE	FL	32202	400 W. BAYSTREET	ROOM 261	(904) 791-3782
04	DO	LOUISVILLE	KY	40202	600 M.L. KING, JR PL	ROOM 188	(502) 582-5976
04	DO	NASHVILLE	TN	37219	404 JAMES ROBERTSON PKWY	STE 1012	(615) 736-5881
04	BO	GULFPORT	MS	39501-7758	ONE HANCOCK PLAZA	SUITE 1001	(601) 863-4449
05	RO	CHICAGO	IL	60604-1593	230 S. DEARBORN STREET	ROOM 510	(312) 353-0359
05	DO	CHICAGO	IL	60604-1779	219 S. DEARBORN STREET	ROOM 437	(312) 353-4528
05	DO	CLEVELAND	OH	44199	1240 E. 9TH STREET	ROOM 317	(216) 522-4180
05	DO	COLUMBUS	OH	43215-2887	85 MARCONI BLVD.	ROOM 512	(614) 469-6860
05	DO	DETROIT	MI	48226	477 MICHIGAN AVE.	ROOM 515	(313) 226-6075
05	DO	INDIANAPOLIS	IN	46204-1584	575 N. PENNSYLVANIA ST.	ROOM 578	(317) 269-7272
05	DO	MADISON	WI	53703	212 E. WASHINGTON AVE.	ROOM 213	(608) 264-5261
05	DO	MINNEAPOLIS	MN	55403-1563	100 N. 6TH STREET	SUITE 610C	(612) 370-2324
05	BO	CINCINNATI	OH	45202	550 MAIN STREET	ROOM 5028	(513) 684-2814
05	BO	MARQUETTE	MI	49885	300 S. FRONT ST.		(906) 225-1108
05	BO	MILWAUKEE	WI	53203	310 W. WISCONSIN AVE.	SUITE 400	(414) 291-3941
05	BO	SPRINGFIELD	IL	62704	511 W. CAPITOL AVE.	SUITE 302	(217) 492-4416

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SBA FIELD OFFICES

REG	TYPE	CITY	ST	ZIP	ADDRESS		PUBLIC PHONE
06	RO	DALLAS	TX	75235-3391	8625 KING GEORGE DR.	BLDG C	(214) 767-7643
06	DO	ALBUQUERQUE	NM	87110	5000 MARBLE AVE., NE	ROOM 320	(505) 262-6171
06	DO	DALLAS	TX	75242	1100 COMMERCE STREET	ROOM 3C-36	(214) 767-0605
06	DO	EL PASO	TX	79935	10737 GATEWAY W.	SUITE 320	(915) 541-7586
06	DO	HARLINGEN	TX	78550	222 E. VAN BUREN ST.	ROOM 500	(512) 427-8533
06	DO	HOUSTON	TX	77054	2525 MURWORTH S	SUITE 112	(713) 660-4401
06	DO	LITTLE ROCK	AR	72201	320 W. CAPITOL AVE.	ROOM 601	(501) 378-5871
06	DO	LUBBOCK	TX	79401	1611 TENTH STREET	SUITE 200	(806) 743-7462
06	DO	NEW ORLEANS	LA	70112	1661 CANAL STREET	SUITE 2000	(504) 589-6685
06	DO	OKLAHOMA CITY	OK	73102	200 N. W. 5TH STREET	SUITE 670	(403) 231-4301
06	DO	SAN ANTONIO	TX	78216	7400 BLANCO ROAD	SUITE 200	(512) 229-4535
06	BO	CORPUS CHRISTI	TX	78411	400 MANN STREET	SUITE 403	(512) 888-3331
06	BO	FT. WORTH	TX	76102	819 TAYLOR STREET	ROOM 10A27	(817) 334-3613
07	RO	KANSAS CITY	MO	64106	911 WALNUT STREET	13TH FLOOR	(816) 426-2989
07	DO	CEDAR RAPIDS	IA	52402-3118	373 COLLINS ROAD NE	ROOM 100	(319) 399-2571
07	DO	DES MOINES	IA	50309	210 WALNUT STREET	ROOM 749	(315) 284-4422
07	DO	KANSAS CITY	MO	64106	1103 GRAND AVE.	6TH FLOOR	(816) 374-6762
07	DO	OMAHA	NB	68154	11145 MILL VALLEY RD.		(402) 221-4691
07	DO	ST. LOUIS	MO	63101	815 OLIVER STREET	ROOM 242	(314) 539-6600
07	DO	WICHITA	KS	67202	110 E. WATERMAN ST.	1ST FLOOR	(316) 269-6571
07	BO	SPRINGFIELD	MO	65802-3200	620 S. GLENSTONE ST.	SUITE 110	(417) 864-7670
08	RO	DENVER	CO	80202	999 18TH STREET	SUITE 701	(303) 294-7001
08	DO	CASPER	WY	82602-2839	100 EAST B. STREET	ROOM 4001	(307) 261-5761
08	DO	DENVER	CO	80202-2599	721 19TH STREET	ROOM 407	(303) 844-2607
08	DO	FARGO	ND	58108-3086	657 2ND AVE. N.	ROOM 218	(701) 239-5131
08	DO	HELENA	MT	59626	301 S. PARK STREET	ROOM 528	(406) 449- 5381
08	DO	SALT LAKE CITY	UT	84138-1195	125 S. STATE STREET	ROOM 2237	(801) 524-5800
08	DO	SIOUX FALLS	SD	57102-0527	101 S. MAIN AVE.	SUITE 101	(605) 336-2980
09	RO	SAN FRANCISCO	CA	94102	450 GOLDENGATE AVE.		(415) 556-7487
09	DO	FRESNO	CA	93721	2202 MONTEREY ST.	SUITE 108	(209) 487-5189
09	DO	HONOLULU	HI	96850	300 ALA MOANA	ROOM 2213	(808) 541-2990
09	DO	LAS VEGAS	NV	89125	301 E. STEWART ST.	ROOM 301	(702) 388-6611
09	DO	GLENDALE	CA	91203	330 N. GRAND BLVD		(213) 894-2956
09	DO	PHOENIX	AZ	85004	2005 N. CENTRAL AVE.	5TH FLOOR	(602) 261-3732
09	DO	SAN DIEGO	CA	92188	880 FRONT STREET	ROOM 4-S-29	(619) 557-5440
09	DO	SAN FRANCISCO	CA	94105-1988	211 MAIN STREET	4TH FLOOR	(415) 974-0642
09	BO	AGANA	GM	96910	PACIFIC DAILY NEWS BDG.	ROOM 508	(671) 472-7277
09	BO	SACRAMENTO	CA	95814	660 J STREET	ROOM 215	(916) 551-1445
09	BO	SANTA ANA	CA	92703	901 W. CIVIC CTR DR	ROOM 160	(714) 836-2494
10	RO	SEATTLE	WA	98121	2615 4TH AVENUE	ROOM 440	(206) 442-5676
10	DO	ANCHORAGE	AK	99501	8TH & C STREETS	ROOM 1068	(907) 271-4022
10	DO	BOISE	ID	83702	1020 MAIN STREET	SUITE 290	(208) 334-1696
10	DO	PORTLAND	OR	97204-2882	1220 S. W. THIRD AVE	ROOM 676	(503) 221-2682
10	DO	SEATTLE	WA	98174-1088	915 SECOND AVE.	ROOM 1792	(206) 442-5534
10	DO	SPOKANE	WA	99210	W. 920 RIVERSIDE AVE.	ROOM 651	(509) 456-3786

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